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C O N F I D E N T I A L SECTION 01 OF 02 BEIJING 000422

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TREASURY FOR OIA CWINSHIP AND TTYANG
NSC FOR LOI

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TAGS: [ECON](#) [EFIN](#) [EAGR](#) [PGOV](#) [SOCI](#) [CH](#)
SUBJECT: CHINA/REBALANCING: BARRIERS TO BOOSTING RURAL
CONSUMPTION IN SHANXI

REF: A. 08 BEIJING 3857
[1](#)B. 08 BEIJING 3933
[1](#)C. 08 BEIJING 4100
[1](#)D. 08 BEIJING 4102
[1](#)E. FBIS/OSC #CPP20090101163001
[1](#)F. BEIJING 359

Classified By: Econ Minister-Counselor Rob Luke for Reasons 1.4
(b) and (d)

[1](#)1. (SBU) SUMMARY: Corruption, mismanagement and an inefficient central-local government budgetary system in rural China bode ill for Chinese Government plans to ease the economic slowdown in part through measures to spur rural demand. Two rural Shanxi Province communities provide examples of how weak local government institutions hinder economic development and implementation of central government directed programs, and how non-government organizations are stepping up to fill at least part of the gap. END SUMMARY.

[1](#)2. (SBU) During a January 20-22 visit to Shanxi Province Econoff visited Taiyuan the Provincial capital and rural communities in Xiyang County, Yangqu County and Yongji City, a county-level city. This trip was not arranged through the Provincial or local Foreign Affairs Offices.

Sad Tales of Corruption and Waste from a Rural NGO

[1](#)3. (C) United States faith-based NGO Evergreen International Project Officer Marc de Ruiter (strictly protect) runs agriculture development projects helping small-scale farmers use new farming techniques and link up to domestic markets. De Ruiter said China's rural development policies are failing due to corruption and waste, and that money directed to rural areas does not reach its targeted beneficiaries. He said Evergreen pig-raising and vegetable farming projects introduce readily-available technologies that local extension services have failed to bring in. He speculated that small-scale farmers do not provide a source of income to the local government and therefore do not get access to government programs.

14. (C) De Ruiter said local farmers do not receive government funds for melamine-affected dairy farmers because bribes are required to access the funds. Conversely, he said a local businessman had established a "pig raising operation" to receive payments from a government subsidy program, and even though he only raised a single pig he got away with it because he paid off local officials. Econoff observed two local officials walking to their new black Audi with bags of vegetables. De Reuter said the officials regularly receive such "free samples" from the project without payment.

15. (C) Evergreen's Taiyuan Regional Director Andrew Kaiser (strictly protect), however, was more generous in his assessment of local governance and pointed out that sometimes institutional capacity is the problem, not corruption. While working with local Shanxi officials on medical projects, for example, Evergreen discovered that the lack of support was often due to local officials not knowing how to work the bureaucracy to obtain Central Government funds.

A Successful Farmers Association Fills the Void

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16. (SBU) Leaders and members from the Yongji City Farmer's Association in southern Shanxi Province described how their association provides to local farmers and residents services not provided by the government. The Farmer's Association grew from a small association helping farmers purchase fertilizer and other inputs to a multifaceted organization that now provides microfinance, agricultural technology extension, and training to approximately 4000 residents in 35 villages. It also provides channels for purchasing farm inputs and marketing, and has committees for village cultural educational, healthcare, and sanitation activities.

17. (C) Ms. Zheng Bing (strictly protect), the founder and Director of the Association, explained how the Association raised funds from villagers and built a much-needed road originally opposed by the local village government. She said in many cases local government leaders are lukewarm or oppose the Association and question the need for it. She told stories about how her husband is a member of the local village committee, which often leads to arguments at home. Zheng also said the Association invited local agriculture officials to their regular cooperative sessions to study new Central Government rural development and agriculture policies, only to hear the officials ask why the villagers are studying the policies. Zheng added, however, that the Association is careful to not take a position in village elections, although Association members are actively involved.

18. (C) Some local village governments throughout China are more effective than those Econoff visited in Yangqu and Yongji Counties. Econoff also visited Dazhai Village, Xiyang County, where the local government manages a number of businesses, including services for tourists visiting this Cultural Revolution model village, and makes annual 1000 RMB payments to villagers from income generated by these enterprises.

19. (C) Nonetheless, weak local government economic functions exhibited in these two areas of rural Shanxi are representative of that found widely in rural China (Ref A). Programs recently announced at the Chinese Communist Party's Third Plenum in October 2008 (Ref B, C, D), the Rural Work Conference in December 2008, and the Chinese Government's recently released "Number One Document" (Ref E, F) on agriculture and rural development aimed at boosting rural consumption will likely take a long time to work through the cumbersome central-local fiscal system, and may only provide a significant boost to rural spending after a recovery is well underway. This may not significantly diminish the overall macro-economic impact of government efforts to stimulate the economy. But the inability to execute programs targeting the rural sector will have implications for rural standards of living and poverty alleviation, as well as rural stability.

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